

# **SDRS Board of Trustees Meeting**

## **Executive Summary**

### **November 3, 2016**

Three major issues were discussed at the recent SDRS Board meeting.

#### **Economic Assumptions**

Actuarial assumptions are used to project the timing and amount of future benefits and estimate the accumulated and future costs of funding those benefits. If data show a material difference between expected future experience and current assumptions, changes should be considered.

Recommended changes approved by the Board of Trustees effective with the June 30, 2017 actuarial valuation: Lower best estimate assumptions for:

- price inflation - 3.25% to 2.25%
- investment return - 7.25%/7.5% to 6.5%
- wage growth - 3.75% to 3.0%

These changes in economic assumptions result in projected costs for the system in excess of our current and expected resources. As a result, benefit changes will need to be addressed in keeping with South Dakota law.

#### **Cost of Living Allowance**

The cost of living allowance (COLA) benefit is a logical choice for consideration of corrective action since the current SDRS COLA is in excess of the Board's goal, has been much greater than inflation and therefore results in a subsidy to retirees. During periods of very low inflation, the COLA excess inflation, SDRS investment returns suffer, and SDRS financial resources are strained.

Board Action: Request staff draft legislation to automatically adjust the COLA based on the fair value of assets and affordability, allowing SDRS to maintain a fair value funded ratio (FVFR) at or above 100 percent in most years.

#### **Compensation**

Late-career compensation increases result in higher costs for the system and, in some circumstances, include attempts artificially inflate SDRS benefits.

Board Action: Request staff draft legislation to:

- Limit compensation increases near retirement to five percent each year and pay excess contributions (plus actual investment return) to the affected member at retirement.
- Adjust the final average compensation averaging period with a transition period through June 30, 2020.

South Dakota Codified Law 3-12-122 defines financial conditions that may require corrective actions. The changes outlined above are designed to meet those requirements.